TESTIMONY OF
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ON
MEDICARE COVERAGE OF PRESCRIPTION DRUGS
BEFORE THE
SENATE FINANCE COMMITTEE
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Chairman Baucus, Senator Grassley, distinguished Committee members, thank you for inviting me to discuss our new proposal for strengthening Medicare, including prescription drug coverage. Joining me today, Mr. Chairman, is Assistant Secretary for Planning and Evaluation, Bobby Jindal. Bobby has spent a considerable amount of time looking into Medicare reform. As many of you will recall, Bobby served as the Executive Director of National Bipartisan Commission on the Future of Medicare**.** Strengthening Medicare with prescription drug coverage is one of President Bush's top legislative goals for the year. Since I took this job last June, I have started almost every speech and ended every speech by saying, "Don't let anyone tell you that the Medicare prescription drug benefit can't get through this year. And don't let anyone tell you that we can't address health insurance access this year." For the past twenty years, I have heard that almost every year. I've heard that Medicare reform and prescription drug coverage can't be done – usually because it is an election year and it is too dicey. But I know, and I'm sure you'll agree with me, that a Medicare prescription drug benefit can and should be started this year. My first job in the first Bush Administration in the spring of 1989 was (along with many on this committee) to try to save catastrophic coverage (prescription drugs) for seniors. Congress passed a provision that included drug coverage

in 1988, and then repealed it in 1989. And Congress has been debating the need for prescription drug coverage on and off ever since. The bottom line is that seniors, particularly low-income seniors, need prescription drug coverage now – it's long overdue.

We can have a healthy debate about how much additional funding is necessary over the next decade to modernize Medicare – whether it's the $190 billion proposed by the Administration, the $300 billion that had strong bipartisan support in last year's budget resolution, or some other figure. But the problem is that similar numbers have been kicked around for the past 15 years with no action. We believe that $190 billion is sufficient, as part of legislation that brings other aspects of Medicare up to date – including reliable, less costly health care coverage options, an improved benefit package, and lower drug prices through competition. These steps will help seniors not only through a meaningful drug benefit, but also through allowing them to spend their prescription drug dollars more effectively and avoid unnecessary health care costs. We believe that any new spending for Medicare should go toward helping beneficiaries through prescription drugs and better health care coverage options. We must also be cognizant of the fact that most seniors have drug coverage today and many are satisfied with the private coverage they have now – we must avoid "crowding out" good employer coverage. And finally, we must make sure that the prescription drug benefit we implement will be there for seniors in the Baby Boom. The key, however, is *getting started*, and we intend to continue to work closely with Congress to implement a prescription drug benefit that Republicans and Democrats can support.

Senator Graham, Chairman Thomas and others have developed a variety of Medicare reform proposals, but it will take at least several years to get a comprehensive drug benefit set up. But seniors need help now, and there are proposals, like the drug card, and low-income subsidies, that we can do to help seniors immediately as part of comprehensive legislation. This Administration – without a doubt – is committed to Medicare reform and committed to providing a meaningful prescription drug benefit for America's seniors and people with disabilities, and to beginning to provide assistance immediately.

The President, the Secretary, and I are determined to get started now. The President's FY 2003 budget demonstrates the Administration's commitment to modernizing Medicare by dedicating $190 billion over ten years for comprehensive Medicare modernization, including a subsidized prescription drug benefit, better insurance protection, and better private options for all beneficiaries, as well as targeted improvements that begin providing relief immediately. And it is our goal to work constructively with Congress to achieve the President's principles for Medicare legislation, as he announced last July. To that end, I want to discuss with you in greater detail the new proposals to be included in legislation to modernize Medicare, as set forth in the President's budget: the prescription drug card, the transitional low-income drug benefit, and immediate steps to help make sure that seniors who prefer private health insurance coverage in Medicare can continue to get it. The Administration is committed to working with Congress to implement these important changes.

PRESCRIPTION DRUG CARD

The lack of drug coverage among American seniors is becoming a social epidemic and is Medicare's most pressing challenge. Ten million Medicare beneficiaries have no prescription drug coverage at all. About forty percent of these beneficiaries, or 4 million, had incomes below 150 percent of poverty, or an annual income of about $18,000 for a family of two. In fact, Medicare beneficiaries, and the uninsured, are the only people in America today that commonly have to pay full price for prescription drugs. That is simply unacceptable and we must do something to address it. Last year, the President took the first step when he proposed the creation of a new Medicare-endorsed drug card program. The drug card is not a drug benefit and it is not a substitute for one. It is, however, an important first step in helping seniors afford the drugs they need today.

The President's proposal is pretty straightforward – it's a pooling mechanism modeled on private health insurance programs, where consumers routinely benefit from discounts of 10 to 35 percent. Private insurers, with their large numbers of customers, use their market power to secure significant rebates and discounts from manufacturers. In fact, I would venture to guess that all of us in this room, and certainly all federal employees, benefit from lower drug prices as a result of such pooling. Under the President's proposal, Medicare would endorse private drug cards that met minimum standards, allowing seniors to get the information they need to obtain manufacturer discounts and other valuable pharmacy services. These third-party plans will negotiate discounts and rebates directly from drug manufacturers and pass the savings on to Medicare beneficiaries who choose to participate.

One of the strongest arguments for the drug card is that it is the building block for most Medicare prescription drug benefit proposals. For example, both Senator Graham's proposal and Chairman Thomas' proposal both get a significant portion of their savings from pooling seniors into PBMs.

Under the President's drug card proposal, beginning later this year, Medicare would annually endorse a number of discount card options operated by private organizations that meet certain qualifications, including financial stability, accessibility, availability of discounts and other customer service features. Each of the card programs could use formularies, patient education, pharmacy networks, and other commonly used tools to secure deeper discounts for beneficiaries. Medicare beneficiaries could choose the one card that best suits their prescription needs, and at most they would pay an enrollment fee of no more than $25. Beneficiaries would enroll with one particular card for six months at a time, but as their prescription needs change, they could switch cards as frequently as every six months to ensure they are getting the best discounts on their prescriptions and the best pharmacy services. Card sponsors would negotiate discounts with drug manufacturers, and endorsed cards would be required to provide comparable information to beneficiaries about the discounts and other services they offer. The Medicare program would encourage competition among cards through better information, and would simplify Medicare beneficiaries' decisionmaking, by requiring that comparisons of the drug discounts available through the different cards are published and available to

beneficiaries. Is this a new benefit? No. Is it perfect? No. But it is a key component to getting on track to implement a prescription drug benefit effectively.

The drug card has another important aspect: CMS has to implement it, just as it will eventually have to implement a more comprehensive drug coverage benefit. CMS knows how to pay hospitals and doctors and nursing homes, but CMS has no experience in working with PBMs, paying pharmacists, or negotiating with drug manufacturers to run a retail drug insurance program. The infrastructure created by the voluntary drug card program and the experience CMS will gain by administering such a program will be a significant advantage when Congress passes a comprehensive Medicare prescription drug benefit, and CMS has to administer it. In our extensive discussions with AARP, I have found that this may be the top reason for their solid support of this concept –- the desire to build the infrastructure and develop the experience needed for an effective Medicare drug benefit.

TRANSITIONAL MEDICARE LOW-INCOME DRUG ASSISTANCE PROGRAM

We've been debating how to cover prescription drugs under Medicare for years. In the absence of a Medicare prescription drug benefit, many states have taken action to assist the neediest seniors. The lowest-income seniors have received prescription drug coverage under the Medicaid dual-eligible program. In addition, 24 states have set up additional prescription drug assistance programs for seniors. Yet many lower-income seniors still get no help. The President believes that comprehensive Medicare legislation should take advantage of existing state infrastructure immediately, and support the

integration of existing state low-income programs into the new Medicare drug benefit, by helping states provide drug coverage for low-income seniors right away.

The Administration has proposed to provide immediate support for comprehensive drug coverage for Medicare beneficiaries up to 150% of poverty – about $18,000 for a family of two. This proposal, called the Transitional Medicare Low-Income Drug Assistance Program, would begin by using the existing administrative structure operated by the states (in cases where states have already set up drug assistance programs) and would also allow states to use the new Medicare drug card infrastructure to provide low-income assistance. For Medicare beneficiaries up to 100% of poverty, the program would pay for expanded drug-only coverage at current Medicaid matching rates, much like existing programs that subsidize Medicare premiums and cost-sharing for low-income Medicare beneficiaries. As an incentive for States to expand coverage up to 150% percent of poverty, Medicare would pay 90 percent of the States' cost of drug-only coverage expansion for above 100% of poverty, leaving states responsible for covering the remaining 10%. This policy is projected to expand drug coverage for up to 3 million beneficiaries who currently do not have prescription drug assistance. It would be fully integrated with the Medicare drug benefit once the reform Medicare program is implemented, through a transitional mechanism as envisioned in all major Medicare drug benefit proposals. In addition, to make expanded drug coverage immediately available even before the enactment of the Transitional Low-Income Drug Assistance Program, states can immediately participate in a model drug waiver program called Pharmacy Plus that can cover Medicare beneficiaries up to 200% of poverty. In Illinois, for example,

368,000 additional low-income Medicare beneficiaries, up to 200% of poverty, will receive drug coverage under the waiver we approved last month.

REFORMED MEDICARE WITH PRESCRIPTION DRUG COVERAGE

Medicare – which will spend over $255 billion in 2003 on health care for about 40 million beneficiaries – was established in 1965 to address the national problem of health care for the elderly, and later, citizens with disabilities. Yet, while the private health insurance market has continued to make dramatic advancements to update coverage and improve health outcomes over the past four decades, Medicare has lagged behind. The President believes very strongly that the largely 1965 model of Medicare must be strengthened. I don't think anyone in this room – Democrat, Republican or Independent – if we could start from scratch, would take $255 billion and design the Medicare program we have today. We must work together and finally take action to strengthen the Medicare system and update its outdated benefits package. To this end, the President last year proposed a framework for modernizing and improving the Medicare program that builds on many ideas developed in this Committee and by other Members of Congress. That framework includes the following eight principles:

- All seniors should have the option of a subsidized prescription drug benefit as part of modernized Medicare.
- Modernized Medicare should provide better coverage for preventive care and serious illness.
- Today's beneficiaries and those approaching retirement should have the option of keeping the traditional plan with no changes.
- Medicare should make available better health insurance options, like those available to all Federal employees.

- Medicare legislation should strengthen the program's long-term financial security.
- The management of the government Medicare plan should be strengthened to improve care for seniors.
- Medicare's regulations and administrative procedures should be updated and streamlined, while instances of fraud and abuse should be reduced
- Medicare should encourage high-quality health care for all seniors.

We all know that when it comes to Medicare reform, even the smallest, most incremental changes can be contentious. But we must get started now, even if it is a gradual but systematic, multi-year approach. Let me assure you that the Administration remains committed to the principles outlined in the framework introduced last year.

There are, of course, a number of things to consider. For example, Congress will have to consider whether the program will be run through private or public entities. It could be administered through private sector risk-bearing contractors (as Medicare+Choice is managed) or through the government-run, fee-for-service Medicare program, where the government bears the risk, not our contractors. All of these questions are extremely difficult. The Administration obviously has strong preferences toward the private sector risk model. We want to work out a long-term solution for seniors. Still, the Administration is determined not to add a new drug benefit to Medicare without significant reform of the program's existing structure.

In this year's budget, the President also made some specific proposals that can be implemented along with this legislative framework to provide immediate assistance to seniors.

RELIABLE, AFFORDABLE, HEALTH INSURANCE COVERAGE OPTIONS IN MEDICARE

The President's framework for strengthening Medicare calls for a fair payment system for private plan options for Medicare beneficiaries, like the system that provides reliable health insurance options to all Federal employees in the Federal Employees Health Benefits program. Private plans have long been the preferred choice of 6 million Medicare beneficiaries. This is not surprising, because the private plans allow beneficiaries to receive more up-to-date benefits than are available under traditional Medicare. The enhanced benefits can include prescription drugs, disease management programs, and better preventive care services – benefits widely available to the nonelderly and to members of Congress. Frequently, private plans have provided much lower cost sharing for required Medicare benefits as well.

Action is needed now to ensure that these benefits remain available to Medicare beneficiaries, because the current Medicare+Choice system for paying private plans is not giving beneficiaries the options they deserve. Since the new payment system was implemented in 1998, hundreds of Medicare+Choice organizations have left the program or reduced their service areas, adversely affecting coverage for hundreds of thousands of beneficiaries – reversing what had been an upward trend in private plan availability and enrollment. In addition, the remaining plans are offering less generous drug benefits and other coverage. Moreover, open-network plans like Preferred Provider Organizations (PPOs) and point of service plans have become popular among privately covered

individuals, yet only two PPOs participate in a few counties in the entire Medicare program.

Annual increases in Medicare+Choice funding have failed to reflect rising health care costs, leading to unreliable options and reduced benefits for seniors. Specifically, between 1998–2002, Medicare+Choice rates increased at 2 or 3 percent per year, or only 11.5 percent overall, in counties where the majority of Medicare+Choice enrollees live. This compares with increases in Medicare fee-for-service (government) plan spending by over 21 percent and medical cost inflation of 9 to 10 percent per year and the same time period. Because payments to private plans do not reflect conditions in Medicare and the health care marketplace, private health plans are struggling to maintain benefit levels.

The President's budget proposes to take urgently needed steps toward the equitable payment system for private plans proposed in the President's framework for strengthening Medicare. The proposal will modify the Medicare+Choice payment formula to better reflect actual health care cost increase and allocate additional resources in 2003 to counties that have received only minimum updates over the last few years. This would make it possible for more private plans to remain in Medicare until the new payment system is phased in. Proposals to help sustain private plans in Medicare are supported by both Democrats and Republicans.

Under the President's proposal, all plans will receive payment increases equivalent to national fee-for-service cost growth minus 0.5 percent. For 2003, plans in counties that have been receiving the minimum updates (2 to 3 percent) will receive a 6.5 percent

increase in payments. The budget also proposes incentive payments for new types of plans that enter Medicare+Choice to encourage a variety of new managed care plans (e.g., PPOs) to participate in Medicare+Choice. The augmented payments to improve beneficiaries' options would cost $390 million between 2003-05 and would increase Medicare+Choice enrollment by more than 7% by 2007.

As a further immediate step that can be implemented to begin to improve benefits in comprehensive legislation, the President's budget expands on his proposal for improving the Medicare benefit package and for making it more affordable by proposing that two new Medigap plans be added to the existing 10. The new Medigap plans would offer prescription drug coverage, protect beneficiaries against catastrophic illness and include modest beneficiary cost sharing at a more affordable cost than the most popular current Medigap plans.

Medigap reform is important to the overall Medicare reform because two-thirds of seniors rely on individual or employer-sponsored supplemental plans. Most covered seniors do not understand the difference between their $54 monthly Medicare premium and their monthly Medigap premium. The many non-poor seniors who can afford a Medigap policy have no option under the current Medigap structure that allows them to get the protection they need from high costs while avoiding the incentives for excess utilization resulting from first-dollar wraparound coverage. Once they send in their Medigap premium, costs are out of their hands.

Private health plans generally have better preventive benefits and better stop-loss protection than Medicare's benefit package, and all also include some kind of cost-sharing to encourage efficient care utilization. A key, then, to funding a significant prescription drug benefit is to include modest incentives for beneficiaries to utilize the rest of the Medicare program more efficiently, while allowing them to get the protection they need at a lower cost, freeing existing Medicare beneficiary and program dollars to help pay for prescription drugs. Therefore, any new Medicare prescription drug benefit should be added only in the context of improvements in the traditional Medicare fee-for-service benefit package, as well as in an improved Medicare+Choice model. Of course, as the President has made clear, seniors should be able to keep their existing Medicare coverage with no changes if they prefer it. Seniors need a drug benefit, and good prescription drug coverage requires an improved and modernized Medicare program.

CONCLUSION

Four years ago, Washington's bipartisan efforts to reform Medicare stalled out over a 10-6 logjam of the Medicare Commission. Last year, there was a serious bipartisan effort to improve Medicare with prescription drug coverage. This included a budget resolution with strong bipartisan support, to set aside substantial funding for a prescription drug benefit and other overdue improvements in Medicare. It also included detailed work and discussions in both the House and the Senate to develop legislation for the fall. But the extraordinary events of September 11th delayed Congressional action on this top legislative priority. President Bush is determined to work with Congress to get that process moving again, and he has started the process by reaffirming his commitment to

devoting substantial new resources to Medicare and to his framework for Medicare legislation. He has also proposed a number of steps that can be implemented with modernization legislation that will provide immediate relief to seniors and help implement the drug benefit and other coverage improvements more effectively. This Administration understands that Members of Congress have a lot of strong views regarding Medicare reform, and we are open to any and all ideas as long as they move the debate forward. The one option, however, that is completely unacceptable to the Administration is the status quo. The Administration is determined to work with Congress to get a prescription drug benefit enacted this year. In addition, we are determined to begin to offer seniors some relief immediately through administrative actions like the drug card and the Medicaid Pharmacy Plus waiver program. Thank you for the opportunity to discuss this very important topic with you today. I hope that I have been able to express the Administration's dedication to strengthening Medicare, as well as our commitment to work with you to do so. I look forward to answering your questions.